CABINET COUNCIL ON COMMERCE AND TRADE
Meeting #42, September 29, 1982
8:45 a.m., Roosevelt Room

Attendees: Messrs. Baldrige, Feldstein, Donovan, Brock, Dederick, Mares, McCormack, Rose, McNamar, Harper, Gunn, Driggs, Thompson, Cicconi, McMinn, Swinburn, Garfinkel, Ms. Dunlop, and Dr. Anderson

Automotive Local Content Legislation

Robert G. Dederick, Under Secretary for Commerce and Economic Affairs, reported on the status of the local content legislation. The legislation was recently reported favorably by a vote of 25 to 16 by the House Energy and Commerce Committee. The bill has now been referred to the House Ways and Means Committee where it will remain until October 1. With ajournment of the House scheduled for October 2, the bill is not expected to reach the House floor until after the elections.

Dederick outlined the Administration's strategy on the legislation: (1) continue to try and keep the bill off the House floor; (2) if the bill gets to the floor ensure that opponents of the legislation have full opportunity to amend the bill and to speak against it; and (3) seek a strong showing of opposition to the bill in order to discourage the attachment of the legislation to another Senate bill as a rider.

Ambassador Brock noted that one of the major obstacles the Administration has faced in seeking to defeat the bill is the view of many members of the Congress that the President would ultimately veto the legislation. This, Brock said, gave members who would ordinarily oppose the measure "an excuse to sign on." The consensus of the Council was that a false sense of security existed in the Congress that the legislation would not pass or that if it did, it would be vetoed. It was generally agreed that, for this reason the Administration must redouble its efforts to defeat the legislation.

Automobile Industry Performance Review

Commerce Deputy Assistant Secretary for Automotive Industry Affairs, Michael Driggs, reported on the financial condition and performance of the U.S. automobile industry. Driggs stated that the auto market remains weak despite sales incentives provided by U.S. manufacturers. U.S. auto sales for 1982 are expected to be in the range of 7.7 - 7.9 million units, down from the 1981 level of 8.5 million units. Truck sales are currently the brightest spot in the market -- up 7.6% over the same period in 1981. Domestic auto supply is currently at high levels, hence,

additional cutbacks in production are expected later this year. The industry, while expected to report a modest profit this year, is essentially at breakeven in terms of the profitability of its auto manufacturing operations and continues to show negative cash flow. Despite the generally weak auto market, the market share of imports remains high in both percentage and absolute terms.

The discussion shifted to the competitive position of the U.S. industry vis-a-vis Japan. Secretary Baldrige commented that a large replacement market exists, but to tap that market, U.S. manufacturers must bring their prices down. He said he was troubled by the failure of management and labor to narrow the gap in wage rates between the U.S. and Japan. The discussion then turned the effect on U.S. competitiveness of the yen-dollar exchange rate and the generally higher taxes borne by U.S. auto manufacturers relative to their Japanese counterparts. Ambassador Brock noted that Chrysler Corporation estimates that the U.S. tax structure imposes $600-650 per car in taxes in excess of that imposed by the Government of Japan on Japanese autos. Edwin L. Harper, stated that most business men consider the overvaluation of the yen to be one of the most significant factor affecting U.S. competitiveness, not only in the auto sector, but across the board. CEA Chairman Martin Feldstein responded that yen misalignment is a short term phenomenon which currently benefits U.S. consumers, and which will ultimately resolve itself. Ambassador Brock expressed his concern that the world financial system was having an increasing adverse effect on global trade. He suggested that it might be appropriate to take another look at the U.S. position in the IMF.

<u>Action Taken</u>: It was agreed that a working group, headed by Treasury and including the Council of Economic Advisers, would investigate the effects of movements in the yen-dollar exchange rates on trade patterns between the U.S. and Japan for discussion at a future CCCT meeting.